

DEPARTMENT OF ADMINISTRATION-6101
STATE HUMAN RESOURCES DIVISION-23

Please note that this program also contains HB 2 funding.

Proprietary Rates

Program Description – The State Human Resources Division manages two proprietary programs: the Professional Development Center (PDC) for training; and the Human Resources Information Services (HRIS) bureau for payroll and benefits eligibility processing.

Professional Development Center/Training Program

Program Description – The Professional Development Center (PDC) program provides training and related services throughout locations in the state of Montana. The PDC offers training directed towards improving state practices, meeting state and federal regulations, and providing professional services such as facilitation, mediation, or curriculum design. All services to customers rely on fees to support operations. The program is internal service fund 06525, consisting of 3.08 FTE. The statutory authority for this program comes from 2-18-102, MCA.

Alternative Sources: Agencies do not have a mandate to use PDC services; they can purchase training from any source including professional seminars, conferences, symposia, or contracted providers.

Customers Served: The PDC primarily serves agencies and units in Montana state government and university system. The PDC's services also attract participants from local and federal government agencies, private industry, and non-profit organizations.

The service level is measured by the number of participants in the program. Total participants served over the past seven years are as follows:

| | | | |
|---------|-------|---------|-------|
| FY 2006 | 3,739 | FY 2010 | 2,410 |
| FY 2007 | 4,039 | FY 2011 | 3,645 |
| FY 2008 | 3,806 | FY 2012 | 2,699 |
| FY 2009 | 3,225 | | |

Major Changes: Other than an immoderate decrease in service level in the 2011 biennium, there were no major changes to the services provided or the customer base in the current or previous biennia. However, the program has experienced some growth in service demand during the 2013 biennium.

Revenues and Expenses

| Fiscal Year | FTE | Revenue | Expenses | Pers Svc % | Variable Cost % | Fixed Cost % |
|----------------|------|-----------|-----------|------------|-----------------|--------------|
| FY 2008 | 3.08 | \$321,139 | \$331,080 | 57% | 31% | 12% |
| FY 2009 | 3.08 | 343,525 | 406,246 | 62% | 29% | 9% |
| FY 2010 | 2.58 | 281,820 | 247,860 | 42% | 43% | 15% |
| FY 2011 – | 2.08 | 275,331 | 241,905 | 47% | 41% | 12% |
| FY 2012 | 3.08 | 318,626 | 369,353 | 55% | 35% | 10% |
| FY 2013 – est. | 3.08 | 304,004 | 366,669 | 54% | 36% | 10% |
| FY 2014—proj | 3.08 | 378,256 | 379,502 | 57% | 33% | 10% |
| FY 2015—proj. | 3.08 | 394,170 | 392,785 | 56% | 34% | 10% |

The table below depicts historic and projected levels of open-enrollment and contract services and shows how participation levels vary from year to year. Service levels provided in FY 2013 were essentially the same as levels provided in FY 2012. PDC staff has maintained the scope of services provided to date. However, with the arrival of a new director, it is anticipated that the scope will expand and possibly change in some ways. Thus, the program will, at the very least, hold on to the average participation rates if not increase them. The projected participation rates below reflect that we will maintain averages of the past five years.

| Fiscal Year | Open Class Participants | Open Class Hours | Contract Participants | Contract Hours |
|---------------------|-------------------------|------------------|-----------------------|----------------|
| FY 2009 | 1761 | 1467 | 1464 | 663 |
| FY 2010 | 1368 | 1429 | 1033 | 333 |
| FY 2011 | 1073 | 1580 | 2572 | 775 |
| FY 2012 | 1352 | 1141 | 1347 | 700 |
| FY 2013 (estimated) | 1349 | 1350 | 1235 | 680 |
| FY 2014 (projected) | 1380 | 1393 | 1532 | 630 |
| FY 2015 (projected) | 1400 | 1410 | 1600 | 650 |

Working Capital Discussion – Billing for the PDC training courses is monthly, which requires the program to operate with approximately 45 days of working capital. Working capital is factored into the rate after estimated expenditures are calculated.

Fund Equity and Reserved Fund Balance – The PDC has no requirement to reserve any of its fund balance. Management's objective is to maintain a stable fund balance sufficient to provide a 45-day working capital balance.

Cash Flow Discussion – During fiscal years 2012-2013, the average turnaround period for revenue receipts was about 45 days from the time service took place. Historically, during the first two quarters of a fiscal year, demand for PDC services is lower and cash receipts tend to be at their lowest levels. Cash outflows remain stable during this time period, as 87% of expenses are constant and occur independently of its revenue stream. This is the time of year when PDC runs short of cash. Toward the end of the year agencies process their training invoices more readily and send more people to training.

Specific Services and SABHRS Accounts – The primary services provided by PDC are open enrollment training courses and contract training. For open enrollment trainings, PDC schedules, promotes, and conducts courses that are open to participants from all state agencies and other public entities. PDC charges a set fee per student for attendance.

PDC also contracts with individual agencies to provide training for their staff. The agency schedules, promotes, and provides the facility for training. PDC provides the instruction and class materials. On a contract, PDC charges a flat fee, depending on the length of the training and the number of events the agency has contracted. If an agency contracts for more than one training event, PDC discounts the fee, based on the number of events. Discounts range from 8 to 25%. These discounts follow a written, consistent fee schedule.

For facilitation, mediation, consulting, and curriculum development PDC charges an hourly rate. On average, these services account for 5% of total revenue each year. Two minor revenue categories are publication sales and room rentals. Revenue from publications and meeting rooms is a little more than 1% of total annual revenue.

Deposits for all PDC services are recorded in the following organizations on SABHRS under the Department of Administration (61010). In each of the organizations listed below, PDC records revenue in account 522091. All base year funding was proprietary.

| | |
|---|------|
| Open Enrollment Management Classes | 2325 |
| Other Scheduled Classes-Open Enrollment | 2326 |

| | |
|---------------------------------|------|
| Contract Training | 2327 |
| Consulting and Other Services | 2328 |
| Room Rentals | 2329 |
| Sale of Merchandise | 2331 |
| Conferences | 2332 |
| Disability Employment Awareness | 2333 |
| Governmental Accounting Classes | 2334 |
| Cultural Diversity Training | 2338 |

Customers record payments to PDC in SABHRS accounts 62809-Education/Training Costs, and 62102-Consulting and Professional Services.

Rate Explanation – Currently, the PDC charges tuition to each participant for attending an open-enrollment training course. Tuition rates were based on two factors: (1) projected attendance and (2) competitive pricing. Both can be empirically determined. In an effort to increase revenue, the program can only attract more participants. Keeping fees competitive steers effort toward attracting more participants. Nevertheless, there is a point at which tuition rates must be adjusted to cover expenses due to inflationary pressures and program development needs. Tuition rates for the 2013 biennium were based on the proportion of fixed and personal services costs to the overall anticipated program cost, in an effort to ensure that demand driven revenues were sufficient to cover total program expenses.

However, during the current and probable future budget challenges, agencies are trimming discretionary costs such as training. The department views the Training Program's coursework as an investment to develop and improve the quality and knowledge base of employees, promoting best practices throughout state government. Leadership and management training have also been shown to have a positive impact on employee retention. Retention is the most cost effective strategy in public organizations. It costs 30-50% of the annual salary of entry level employees to replace them, 150% of middle level employees, and up to 400% for specialized, high level employees. (Society for Human Resource Management) This is the highest cost issue in human resource management.

Through the executive planning process for the 2013 biennium and beyond, the PDC is requesting to change the program's funding method. Rather than the current process of charging tuition to each participant for attending a training course, the PDC is requesting to charge a fixed cost rate to agencies based on their FTE. The current projection for this method of funding is \$454,307 per annum. In the event that this proposal is not approved, it is proposed to increase tuition rates by 20% for FY 2014 and by 4% in FY 2015. The 20% rate increase is due to the fact that tuition has been increased at very low rates, i.e., less than the rate of inflation, for the past decade. Assuming that attendance rates continue at their present rate and that the PDC holds the line on expenses, this should ensure that there will be no cost overruns in the biennium.

Attendance:

An analysis of the past seven complete fiscal years shows that, on average, 1,591 people attended open-enrollment courses each year, and 1,648 attended contract courses.

We can apply the historic averages to projected attendance in FY 2014, and multiply by the proposed fees to project revenue. Projected expenses for FY 2014 are \$445,086. This project is based on the approval of the fixed cost proposal which will require the PDC to hire an additional full time trainer and increase the development time for programs that will be geared exclusively to state employees. Historically, open-enrollment courses have generated 74% of annual revenue, contract courses 26%. In FY 2014, open-enrollment courses would need to generate at least \$329,363 and contract courses \$115,723. If the fixed cost proposal is not approved, then the anticipated expenses will be lower as we will be keeping personal services costs at current level plus any additional raises that may be approved. The application of past trends to projected participation appears in Table 1.

Table 1: Projected Revenues (FY 2014)

| FY 2014 Open Enrollment | Type of Course | Attending | Fee | Revenue |
|--------------------------------|--|------------------|------------|-------------------|
| Total Projected--1380 | Full-day Courses (53% of participants) | 731 | 148 | \$ 115,588 |
| | Half-day Course (37% of participants) | 481 | 114 | \$ 58,140 |
| | Series (10% of participants) | 130 | 576 | \$ 79,488 |
| Total Open Enrollment Revenue | | | | \$ 253,216 |
| FY Contract Courses | | | | |
| Projected attendance-- | Average | 1563 | 80 | \$ 125,040 |
| Total Projected Revenue | | | | \$ 378,256 |

Finally, projecting attendance is an imperfect science. Historical data over the past seven fiscal years show that PDC staff has hit a wide range in matching projections, from 78% to 141%. The overall average for the period is 93%. Table 2 shows total revenue of \$378,256, and 93% of that amount is \$351,778, which is within 1% of the projected expenses of \$379,502.

Table 2: Projected Revenues (FY 2015)

| FY 2015 Open Enrollment | Type of Course | Attending | Fee | Revenue |
|--------------------------------|--|------------------|------------|-------------------|
| Total Projected--1400 | Full-day Courses (53% of participants) | 742 | 154 | \$ 114,268 |
| | Half-day Course (37% of participants) | 518 | 119 | \$ 61,642 |
| | Series (10% of participants) | 140 | 599 | \$ 83,860 |
| Total Open Enrollment Revenue | | | | \$ 259,770 |
| FY Contract Courses | | | | |
| Projected attendance | Average | 1600 | 84 | \$ 134,400 |
| Total Projected Revenue | | | | \$ 394,170 |

Table 2 shows total revenue of \$394,170, and 93% of that amount is \$366,578, which is within 1% of the projected expenses of \$392,785.

Rate Structure - The Professional Development Center proposes the following fee structure for the 2015

Biennium. These rates stem from the foregoing analysis and remain below the mean for comparable training services in Montana. The rates for FY 2013 are the same as those approved by the Legislature for FY 2011. The proposed rates for FY 2014 represent, on average, an increase of 20% over FY 2013 rates. The rates for FY 2015 represent an increase of 4% over FY 2014. The 20% increase is proposed to overcome historical shortfalls that have resulted from low rate increases over the last 10 years that are well below the rate of inflation. The indexed rate of inflation since 2004 is 43.26% (Bureau of Labor Statistics) and the increase of the rate structure for the PDC has been held to a net 18.4%. Through a process of identifying some areas of potential savings and additional new courses, the expectation is that the difference may be accommodated. While the PDC is committed to continuous quality improvement, it is unreasonable to assume that the gap between inflation and rates of 25% can be closed through identified efficiencies.

| Type of service | FY 2014 | FY 2015 |
|--|---------|---------|
| Open enrollment courses | | |
| Two-day course, per participant | 228 | 237 |
| One-day course, per participant | 148 | 154 |
| Half-day course, per participant | 114 | 119 |
| Eight-day management series | 684 | 711 |
| Six-day management series | 528 | 549 |
| Three-and-half-day administrative assistant series | 336 | 349 |
| Contract courses | | |
| Full day of training, flat fee | 996 | 1,036 |
| Half day of training, flat fee | 684 | 711 |